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March 8, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

Thank you for the opportunity to comment on the proposed revisions to NCUA Rules and Regulations Part 704. It is unfortunate that we've had to all go through this current economic upheaval, but we firmly believe that we need to use this opportunity to effect positive change. Although, this regulation directly pertains to only corporate credit unions, the proposed regulation will no doubt affect a large number of natural person credit unions to varying degrees based on the level of services utilized.

Of particular concern to our credit union is the ability of the entire industry to regain the confidence in the corporate system to the extent that we would be willing to recapitalize the corporate credit unions. We believe that our concerns related to the corporate credit unions ability to attain adequate capital levels are resonated by most in the industry. However, we do not currently question the corporate credit unions ability to operate successfully going forward (excluding the effects of the legacy assets). We do question that ability should excessive regulatory changes create an overly restrictive environment that would not allow a corporate to assume a reasonable level of risk while operating within the parameters of safety and soundness. Additionally, we would stress that any change in the corporate regulation not be used as a justification to effect regulatory changes in natural person credit unions as this would most likely lead to the eventual failure of many credit unions.

We believe some major limitations exist in the proposed rule that cause us a number of concerns, mostly related to liquidity and investment returns. If the proposed rule were to pass in its current form, our credit union may need to turn to alternative, possibly far more costly, providers should certain services become unavailable.

Following are our primary concerns:

CAPITAL ADEQUACY

As noted above, the primary concern is the ability of our corporate to recapitalize. The proposed rules as it relates to the attainment of core capital with regards to the retained earnings requirement will be difficult, if not impossible to meet for a number of corporate credit unions. In addition, the lack of information as to how the specific resolution of the corporate issues puts us in a precarious position of having to comment on a regulatory change that would appear to set up the failure of our corporate.

704. - Corporate credit union capital

We see the pros and cons to having a more uniform capital structure, although it is of concern that we are referring so much to the banking standard when it's apparent that those standards failed in their own respects. We are concerned with the proposed capital requirements in that it appears that such minimum requirements will create an overly capitalized institution. Granted if these requirements were in place prior to the financial crisis, the resulting excess capital would have helped cushion the blow to reserves. However, the underlying issue is the protection of capital through the controlling of risk. The sufficiency of capital should correlate to the level of risk and therefore the adoption of a risk based capital requirement should address these concerns. The protection of capital could also be accomplished through the determination of expanded investment authority, other internal ALM measurement requirements, or some other regulatory changes being proposed such as more stringent requirements for authorized vs. prohibited investments.

ASSET LIABILITY MANAGEMENT

There are several concerns with regards to the proposed regulations over any enhanced asset liability requirements that all boil down to the unnecessary development of regulatory standards that should theoretically be controlled at the policy level of each institution. However, if we are faced with the certainty that some requirements will be set as a regulatory standard regardless of the appropriateness of such standards in a regulatory framework, then we should ensure that such standards are not too restrictive and allow for a corporate to have sufficient tools available to them and operate with the ability to take on a reasonable level of risk.

704.8 (c) Penalty for early withdrawals

The ability of the corporate to pay a premium on a certificate redemption is definitely a feature that should be maintained. If this change stays as proposed, we will have to consider putting longer-term investable funds elsewhere in liquid instruments that do not penalize early redemptions as the marketability of a corporate certificate would be less attractive. If all credit unions are forced into the same choice, this would effectively mean the end of corporate certificates as a competitive investing option. That will not be good for my credit union, the corporate credit unions, or the system as a whole. This proposal should be removed.

704.8 (e) Cash flow mismatch sensitivity analysis

The proposed limitations placed upon a corporate through various NEV tests may not allow a corporate to generate a sufficient interest margin to build retained earnings, especially in relation to meet your proposed capital requirements. We believe that a sound portfolio management strategy with even limited credit risk will potentially produce a shocked NEV decline of 10%-20%. If enacted as drafted, this proposal will inevitably lead to some combination of increased fees being charged to our credit union and lower return on deposits that will adversely impact the level of service and support that my credit union needs. The rule should be revised to allow the corporate credit union to make sufficient income from the balance sheet to grow and invest in innovation for the benefit of all its member credit unions, while exercising an acceptable level of credit and interest rate risk.

704.8 (f) Cash flow mismatch sensitivity analysis with 50 percent slowdown in prepayment speeds

Although the intent of this test is understood given the recent credit events, the requirements of the tests performed in 704.8 (e) should be adequate given that we believe that prepayment speeds are normally dependent on economic conditions. The analysis of the effects of prepayment speeds along with the underlying credit risk should already be a part of the due diligence requirements in purchasing investments and in combination with periodic NEV tests as established in 704.8 (e) should be sufficient. To adjust prepayment speeds on other factors would be extremely subjective and create on outcome that would be remote and of little value under normal conditions. This proposal should be removed.

704.8 (h) Weighted average asset life

This proposal seems too restrictive for a corporate to earn an adequate return given the 2 year weighted average life requirement. We will either see a limitation on the earnings of the investment portfolio as funds will need to be placed short or a reduction or elimination of the offering of longer term financing options. I look to my corporate as a liquidity provider and although this would almost ensure the availability of short-term liquidity, liquidity (or the ability to offer sources of liquidity) can be managed through other reasonable means without having to be restricted to a 2 year weighted average life. We do not need a requirement that may effectively restrict our access to credit. This proposal should be removed or the average life requirement should be extended.

704.11 Corporate Credit Union Service Organizations

The current definition does not give a clear understanding as to what will be permissible in the final rule. Given the vast business alternatives that CUSOs can be involved, it is unclear as to whether any of the current CUSOs that our corporate is involved with will be affected and whether those business partnerships will be jeopardized. This could ultimately lead to us having to renegotiate with those CUSOs (assuming the particular CUSO business model will survive without the support of corporate credit unions) or even with other service providers outside of the credit union industry without having the leverage that a corporate could provide, which could translate to higher costs. We would recommend a more thorough definition be provided with the "other categories…" language to remain to allow for the expansion of permissible activities.

RISK CONCENTRATION LIMITS

704.6 (c) (d) Credit Risk Management – Issuer and Sector concentration limits

It is currently unclear as to whether Federal Funds are excluded from these limits. Assuming the current proposals for concentration limits includes Federal Funds, a corporate will be severely challenged to invest short-term liquidity at reasonable rates. This will have the effect of reducing the overnight rates my credit union receives from our corporate. We recommend that the regulations specifically exempt Federal Funds transactions from both of these concentration limits.

CORPORATE GOVERNANCE

704.14 Representation

We would consider the term limit to 6 consecutive years as being too short for a director to be truly effective and to provide value for the entire membership. We believe that the goal should be to ensure that the directors are not only well qualified, but include a diverse representation of the membership and limiting the terms to 6 years would severely challenge that goal. We would recommend that the term limit be extended to 12 consecutive years.

704.19 Disclosure of executive and director compensation

We understand that the salaries of "senior executives" should be available to members to balance their financial interests against an individual's privacy, but only "senior executives". This disclosure requirement could also be very difficult to define as the organizational structure could vary with each corporate. We would define a "senior executive" as any officer reporting directly to the Chief Executive Officer. This would be in line with current practices within other financial institutions.

The above areas comprise our major concerns with the proposed rule. We see tremendous value in the corporate credit union network and hope that this value does not get diminished as a result of our corporate credit unions need to adjust service levels, rates or increase fees as a result of a any regulatory change.

We applaud the initial effort to draft the proposal for the sake of strengthening the corporate network and protecting the interest of natural person credit unions. We hope that our comments, along with those of our fellow credit union leaders, will assist you in ensuring the long-term success of our industry.

Sincerely,

Jeanine M. Morse

Jeanine M. Morse
President/CEO